

UK PENSIONS & SUMMER BUDGET UPDATE JULY 2015

There were a number of pension announcements made this week as part of the UK summer Budget 2015. While these changes have no direct impact on Irish pensions, it may be of interest to see how pensions are developing in other countries such as the UK.

UK GREEN PAPER ON PENSIONS TAX RELIEF

The UK government is to hold a consultation on pensions tax relief. It is to be considered if pensions could be treated similar to UK ISAs where contributions are made from taxed income, with a top-up being made by the government, and the benefits paid are then received tax free on drawdown. This could be a somewhat similar concept to Irish SSIA's. A question is whether this would be a simpler and more transparent system for pension savers. But the consultation also invites views on less radical changes, such as retaining the current system and alterations to the lifetime and annual allowances.

The UK government have made the point that this idea needs careful consideration before any steps are taken and as such they are inviting views and have said they are taking care not to pre-judge the answers. The consultation will continue to the end September 2015.

THE OTHER MAIN PENSION ANNOUNCEMENTS:

The annual allowance for pension contributions which is currently set at £40,000 pa for all is going to be restricted for those whose income exceeds £150,000, including pension contributions. Income of £150,000 marks the point that UK tax payers move to the 45% tax bracket. The annual allowance will be restricted to £10,000 where total income is above £210,000. A sliding scale will apply for those with total income between £150,000 and £210,000 (annual allowance will be reduced by £1 for every £2 of income). This is due to be introduced from 6 April 2016. The pension lifetime allowance is to be reduced from £1.25m to £1m with effect from April 2016. It is estimated that fewer than 4% of UK pension savers will be affected. To allow for inflation, the lifetime allowance will then be indexed by CPI starting in April 2018. (These measures were already announced in March 2015).

Also as previously announced, it was repeated that the UK government are currently consulting on how a secondary annuity market can be established to allow people who are already receiving income from an annuity to sell that income to a third party, subject to agreement from their annuity provider. The annuity could be cashed in for either a single lump sum or a series of payments. These payments would be taxed at their marginal rate, in the same way as other pension income. It is proposed this will be allowed from April 2016.